

Message Text

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ACTION ARA-10

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TAGS: AFSP, ALOW, AFIN, ECON, CI

SUBJ: INFLATION IN DECEMBER

REF: A) 75 SANTIAGO 8209, B) 75 SANTIAGO 8468

1. DIRECTOR OF NATIONAL INSTITUTE OF STATISTICS (INE) SERGIO CHAPARRO ANNOUNCED DECEMBER INFLATION AT 7.1 PERCENT, THE LOWEST MONTHLY RATE EXPERIENCED IN 1975. DURING PAST YEAR THE CONSUMER PRICE INDEX (CPI) INCREASED BY 340.7 PERCENT, COMPARED WITH PREVIOUS YEAR'S 375.9 PERCENT. INFLATION FOR THE LAST SIX MONTHS OF THE YEAR AMOUNTS TO 63.3 PERCENT, WHICH IS A SIGNIFICANT DECREASE FROM THE 169.9 PERCENT EXPERIENCED DURING THE FIRST HALF OF THE YEAR. PROJECTING THE 169.9 RATE FORWARD THROUGH DECEMBER WOULD HAVE RESULTED IN A RATE OF MORE THAN 600 PERCENT.

2. SECTORAL INCREASES FOR DECEMBER ARE: FOOD 5.4 PERCENT; HOUSING 12.3 PERCENT; CLOTHING 6.5 PERCENT; AND MISCELLANEOUS 7.9 PERCENT.

3. COMMENT. THE ECONOMIC RECOVERY PROGRAM HAS APPARENTLY HAD THE EFFECT OF REDUCING CHILE'S INFLATION RATE FROM A MONTHLY AVERAGE OF 18 PERCENT FOR THE FIRST HALF OF THE YEAR

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TO A MONTHLY AVERAGE OF 8.5 PERCENT FOR THE SECOND HALF, A

PALPABLE ACHIEVEMENT. THE REDUCTION SUSTAINS THE HOPE IMPORTANT TO BUSINESS CONFIDENCE THAT SOMEDAY, IF THIS TREND CONTINUES, CHILEAN INFLATION WILL BE REDUCED TO A MORE MANAGEABLE PROPORTIONS.

4. ON THE OTHER HAND, THE GOC HAS ACKNOWLEDGED THAT PRESENT INFLATION RATES WILL PERVALE FOR THE NEXT FEW MONTHS (REF B), WHICH IMPLIES INFLATION IN THE RANGE OF 65 PERCENT IN THE NEXT SIX MONTHS AND AS HIGH AS 170 PERCENT FOR THE COMING YEAR. IN TERMS OF THE DAY-TO-DAY DECISIONS PRESENTLY BEING MADE BY BUSINESSES AND HOUSEHOLDS AT ALL LEVELS, THERE IS NOT A DECISIVE DIFFERENCE BETWEEN A YEARLY RATE OF 350 PERCENT AND ONE OF 170 PERCENT.

5. A DECEMBER INFLATION RATE OF 7.1 PERCENT IS HIGH IN VIEW OF THE FACT THAT THIS IS THE BEGINNING OF THE SUMMER HARVEST. FOODS WOULD NORMALLY BE EXPECTED TO DECREASE IN PRICE (DECEMBER 1974 INFLATION WAS 6.5 PERCENT, ACHIEVED IN THE MIDST OF A PERIOD OF VERY HIGH INFLATION).

6. MOREOVER, THERE IS EVIDENCE THAT DECEMBER 1975 RATE WOULD HAVE BEEN EVEN HIGHER, HAD PRICE RISES IN CERTAIN ITEMS UNDER PRICE CONTROL NOT BEEN DEFERRED UNTIL AFTER THE FIRST OF JANUARY 1976. INFERENCE IS THAT SOME DELAYS MAY WELL HAVE TAKEN PLACE IN ORDER TO IMPROVE 1975 STATISTICS. (THE CPI WEIGHTS ATTACHED TO THE POSTPONED ITEMS NOT BEING LARGE, THEIR DIRECT INFLATIONARY IMPACT WILL BE A LIMITED ONE. NEVERTHELESS, THE ITEMS INCLUDE FUEL, TRANSPORTATION, AND ELECTRICITY, ALL OF WHICH ARE FACTORS IN THE PRODUCTION OF VIRTUALLY ALL OTHER GOODS. HAD THESE PRICES BEEN ALLOWED TO RISE IN THE FIRST PART OF DECEMBER, SOME SIGNIFICANT INFLATIONARY IMPACT WOULD HAVE BEEN FELT BY THE LATTER PART OF THE MONTH.)

7. FOLLOWING INE ANNOUNCEMENT, RADIO BALMACEDA, WHICH SPEAKS FOR OPPOSITON CRHISTIAN DEMOCRATIC PARTY (PDC), ATTACKED THE GOVERNMENT VIGOROUSLY ON ITS ECONOMIC POLICY. ANALYSIS OF THESE CRITICISMS BY SEPTTEL.
POPPER

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